

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENDERSON COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Henderson County Fiscal Court for fiscal year ended June 30, 2010.

We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Henderson County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$18,422,278 as of June 30, 2010. The fiscal court had unrestricted net assets of \$8,215,005 in its governmental activities as of June 30, 2010, with total net assets of \$18,337,801. In its business-type activities, total net cash and cash equivalents were \$54,891 with total net assets of \$84,477. The fiscal court had total bonds payable of \$14,480,000 as of June 30, 2010 with \$740,000 due within the next year.

Report Comments:

2010-01 Internal Controls At The Jail Are Not Functioning Properly
2010-02 Credit Card Expenditures Should Be Supported By Proper Documentation
2010-03 KRS 424.260 Bid Requirements Should Be Followed

Deposits:

The fiscal court's deposits were fully insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Donald H. McCormick, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Henderson County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Donald H. McCormick, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2011 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comments and recommendations, included herein, which discusses the following report comments:

2010-01 Internal Controls At The Jail Are Not Functioning Properly
2010-02 Credit Card Expenditures Should Be Supported By Proper Documentation
2010-03 KRS 424.260 Bid Requirements Should Be Followed

Respectfully Submitted,



Crit Luallen
Auditor of Public Accounts

April 14, 2011

HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Donald Hugh McCormick	County Judge/Executive
Carter Wilkerson	Magistrate
Charles Alexander	Magistrate
Billy Putman	Magistrate
Bruce Todd	Magistrate
Ray Lacer	Magistrate

Other Elected Officials:

Steve Gold	County Attorney
Ron Herrington	Jailer
Renny Matthews	County Clerk
Frances R. London	Circuit Court Clerk
Mark E. Brady	Sheriff
Howard Moran	Property Valuation Administrator
Bruce Farmer	Coroner

Appointed Personnel:

Rebecca I. Carroll	County Treasurer
Brenda Rider-Duncan	Finance Officer

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HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 8,208,957	\$ 54,891	\$ 8,263,848
Receivable	2,016		2,016
Total Current Assets	8,210,973	54,891	8,265,864
Noncurrent Assets:			
Notes Receivable	4,032		4,032
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	583,213		583,213
Buildings	17,711,833		17,711,833
Vehicles and Equipment	2,858,925	29,586	2,888,511
Infrastructure	3,448,825		3,448,825
Total Noncurrent Assets	24,606,828	29,586	24,636,414
Total Assets	32,817,801	84,477	32,902,278
LIABILITIES			
Current Liabilities:			
Bonds Payable	740,000		740,000
Total Current Liabilities	740,000		740,000
Noncurrent Liabilities:			
Bonds Payable	13,740,000		13,740,000
Total Noncurrent Liabilities	13,740,000		13,740,000
Total Liabilities	14,480,000		14,480,000
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	10,122,796	29,586	10,152,382
Unrestricted	8,215,005	54,891	8,269,896
Total Net Assets	\$ 18,337,801	\$ 84,477	\$ 18,422,278

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 8,305,222	\$ 393,167	\$ 1,270,232	\$ 1,225,451
Protection to Persons and Property	5,498,998	4,996,071	352,186	
General Health and Sanitation	256,327	2,016		
Social Services	182,269			
Recreation and Culture	20,000			
Roads	3,092,885	58,185	2,297,217	1,262,104
Bus Services	32,500			
Interest on Long-Term Debt	590,346			
Capital Projects	601,750			
Total Governmental Activities	18,580,297	5,449,439	3,919,635	2,487,555
Business-type Activities:				
Jail Canteen	529,559	563,756		
Total Business-type Activities	529,559	563,756		
Total Primary Government	\$ 19,109,856	\$ 6,013,195	\$ 3,919,635	\$ 2,487,555

General Revenues:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Unmined Coal Taxes
Insurance Premium Taxes
Other Taxes
Telephone Commissions
In Lieu Of Tax
Excess Fees
Reimbursements
Miscellaneous Revenues
Interest Earned

Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (Restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (5,416,372)	\$	\$ (5,416,372)
(150,741)		(150,741)
(254,311)		(254,311)
(182,269)		(182,269)
(20,000)		(20,000)
524,621		524,621
(32,500)		(32,500)
(590,346)		(590,346)
(601,750)		(601,750)
(6,723,668)		(6,723,668)
	34,197	34,197
	34,197	34,197
(6,723,668)	34,197	(6,689,471)
2,240,066		2,240,066
452,671		452,671
290,975		290,975
106,602		106,602
1,693,323		1,693,323
421,042		421,042
394,813		394,813
386,030		386,030
2,295,994		2,295,994
102,712		102,712
100,958		100,958
151,092	125	151,217
8,636,278	125	8,636,403
1,912,610	34,322	1,946,932
16,425,191	50,155	16,475,346
\$ 18,337,801	\$ 84,477	\$ 18,422,278

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 4,949,510	\$ 164,472	\$ 1,591,880	\$ 1,398,134
Total Assets	<u>4,949,510</u>	<u>164,472</u>	<u>1,591,880</u>	<u>1,398,134</u>
FUND BALANCES				
Reserved for:				
Encumbrances	102,383	924	594	20,000
Unreserved:				
General Fund	4,847,127			
Special Revenue Funds		163,548	1,591,286	1,378,134
Debt Service Fund				
Total Fund Balances	<u>\$ 4,949,510</u>	<u>\$ 164,472</u>	<u>\$ 1,591,880</u>	<u>\$ 1,398,134</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 9,933</u>	<u>\$ 8,113,929</u>
<u>9,933</u>	<u>8,113,929</u>
	123,901
	4,847,127
9,887	3,142,855
<u>46</u>	<u>46</u>
<u>\$ 9,933</u>	<u>\$ 8,113,929</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 8,113,929
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	32,706,561
Accumulated Depreciation	(8,103,765)
Internal Service Fund Is Used By Management To Charge The Cost Of Health Insurance To Individual Funds. The Assets And Liabilities Are Included In Governmental Activities On The Statement Of Net Assets	95,028
Receivables Reported At The Government-wide Level Are Not Current Financial Resources And Therefore, Are Not Reported In The Funds.	6,048
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Due In One Year - Bond Principal Payments	(740,000)
Due In More Than One Year - Bond Principal Payments	<u>(13,740,000)</u>
Net Assets Of Governmental Activities	<u>\$ 18,337,801</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 5,204,680	\$	\$	\$
In Lieu Tax Payments	386,030			
Excess Fees	99,808			
Licenses and Permits	196,139			105,233
Intergovernmental	2,972,820	1,901,446	5,131,571	1,657,875
Charges for Services	2,016	15,871	84,870	
Miscellaneous	139,958	84,047	504,952	99
Interest	117,545	1,300	11,827	20,343
Total Revenues	<u>9,118,996</u>	<u>2,002,664</u>	<u>5,733,220</u>	<u>1,783,550</u>
EXPENDITURES				
General Government	5,617,515			95,790
Protection to Persons and Property	634,461		3,933,275	193,925
General Health and Sanitation				256,327
Social Services				182,269
Recreation and Culture				20,000
Roads		3,359,268		302,393
Bus Services				32,500
Debt Service				
Capital Projects	601,750			
Administration	494,737	605,279	973,473	1,533
Total Expenditures	<u>7,348,463</u>	<u>3,964,547</u>	<u>4,906,748</u>	<u>1,084,737</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,770,533</u>	<u>(1,961,883)</u>	<u>826,472</u>	<u>698,813</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	286,912	2,700,000	300,000	450,000
Transfers To Other Funds	(2,126,500)	(650,000)	(773,940)	(700,000)
Total Other Financing Sources (Uses)	<u>(1,839,588)</u>	<u>2,050,000</u>	<u>(473,940)</u>	<u>(250,000)</u>
Net Change in Fund Balances	(69,055)	88,117	352,532	448,813
Fund Balances - Beginning (Restated)	<u>5,018,565</u>	<u>76,355</u>	<u>1,239,348</u>	<u>949,321</u>
Fund Balances - Ending	<u>\$ 4,949,510</u>	<u>\$ 164,472</u>	<u>\$ 1,591,880</u>	<u>\$ 1,398,134</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 5,204,680
	386,030
	99,808
	301,372
1,850,865	13,514,577
	102,757
10,427	739,483
76	151,091
<u>1,861,368</u>	<u>20,499,798</u>
789,539	6,502,844
345,686	5,107,347
	256,327
	182,269
	20,000
	3,661,661
	32,500
1,300,346	1,300,346
	601,750
31,548	2,106,570
<u>2,467,119</u>	<u>19,771,614</u>
(605,751)	728,184
600,440	4,337,352
<u>(86,912)</u>	<u>(4,337,352)</u>
<u>513,528</u>	
(92,223)	728,184
<u>102,156</u>	<u>7,385,745</u>
<u>\$ 9,933</u>	<u>\$ 8,113,929</u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 728,184
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because:	
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement of Activities The Costs Of Those Assets Are Allocated Over Their Estimated Useful Lives, And Are Reported As Depreciation Expense	
Capital Outlay	1,208,336
Depreciation Expense	(1,094,235)
Net Book Value of Disposed Assets	(4,875)
Payment On Receivables Provide Current Financial Resources To Governmental Funds, While At The Government-wide Level, A Reduction Of The Receivable Occurs. These Transactions Have No Effect On Net Assets.	
Receivables Principal Repaid	(2,016)
Internal Service Funds Are Used By Management To Charge The Cost Of Health Insurance To Individual Funds. The Net Revenues (Expenses) Of This Fund Are Reported With Governmental Activities.	367,216
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Principal Payments Are Expenses In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However Have No Effect On Net Assets.	
Bond Principal Payments	<u>710,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,912,610</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2010

HENDERSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities -	Governmental Activities -
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 54,891	\$ 95,028
Total Current Assets	<u>54,891</u>	<u>95,028</u>
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	65,690	
Less Accumulated Depreciation	<u>(36,104)</u>	
Total Noncurrent Assets	<u>29,586</u>	
Total Assets	<u>84,477</u>	<u>95,028</u>
Net Assets		
Invested in Capital Assets	29,586	
Unrestricted	<u>54,891</u>	<u>95,028</u>
Total Net Assets	<u><u>\$ 84,477</u></u>	<u><u>\$ 95,028</u></u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities -	Governmental Activities -
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Operating Revenues		
Canteen Receipts	\$ 563,756	\$
Contributions/Reimbursements		2,786,102
Total Operating Revenues	563,756	2,786,102
Operating Expenses		
Bicycle Program	5,848	
Cost of Sales	403,937	
Depreciation	6,577	
Education and Recreational	111,984	
Miscellaneous	1,213	
Insurance Costs		2,418,886
Total Operating Expenses	529,559	2,418,886
Operating Income	34,197	367,216
Nonoperating Revenues (Expenses)		
Interest Income	125	
Inmate Pay from State	16,262	
Inmate Refunds	(16,262)	
Total Nonoperating Revenues (Expenses)	125	
Change In Net Assets	34,322	367,216
Total Net Assets - Beginning	50,155	(272,188)
Total Net Assets - Ending	\$ 84,477	\$ 95,028

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities -	Governmental Activities -
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Cash Flows From Operating Activities		
Canteen Commissions	\$ 563,756	\$
Contributions/Reimbursements		2,786,102
Cost of Sales	(403,937)	
Educational and Recreational	(111,984)	
Bicycle Program	(5,848)	
Miscellaneous	(1,213)	
Insurance Costs		(2,418,886)
Net Cash Provided By		
Operating Activities	40,774	367,216
Cash Flows From Noncapital Financing Activities		
Inmate Pay From State	16,262	
Inmate Refunds on Accounts	(16,262)	
Net Cash Provided By Noncapital		
Financing Activities		
Cash Flows From Investment Activities		
Interest Earned	125	
Net Cash Provided By		
Investment Activities	125	
Net Increase in Cash and Cash		
Equivalents	40,899	367,216
Cash and Cash Equivalents - July 1, 2009	13,992	(272,188)
Cash and Cash Equivalents - June 30, 2010	\$ 54,891	\$ 95,028

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

	Business-Type Activities -	Governmental Activities -
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income	\$ 34,197	\$ 367,216
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities		
Depreciation Expense	<u>6,577</u>	
 Net Cash Provided By Operating Activities	 <u>\$ 40,774</u>	 <u>\$ 367,216</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF FIDUCIARY FUNDS NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

HENDERSON COUNTY
STATEMENT OF FIDUCIARY FUNDS NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Total</u> <u>Agency Funds</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 115,846
Total Assets	<u>115,846</u>
Liabilities	
Amounts Held In Custody For Others	<u>115,846</u>
Total Liabilities	<u>115,846</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Henderson County Public Properties Corporation

The Henderson County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements. All activities of the Public Properties Corporation are accounted for within a governmental fund.

C. Henderson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henderson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or types (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for the revenues distributed to Kentucky counties under KRS 42.455 and expenditures in compliance with this statute.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: State Grants Fund, Economic Development Fund, General Obligation Bond Fund, and Public Properties Corporation Debt Service Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, and Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The General Obligation Bond Fund and the Public Properties Corporation Debt Service Fund account for the activities of the County's long-term debt. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Fund:

The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major enterprise fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

Internal Service Fund:

The primary government reports the following internal service fund:

Health Insurance Fund – This fund accounts for the goods or services provided by one governmental department or agency to another. The Fiscal Court maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county reports three agency funds, a Jail Inmate Fund and two Jail Escrow Funds, which are used to account for monies held by the jailer for custodial purposes only. Unlike other funds, agency funds report assets and liabilities only; therefore, they have no measurement focus.

The primary government reports the following agency funds:

Jail Inmate Fund - This fund accounts for monies received from inmates and held until inmate use.

Jail Escrow Funds - These funds account for monies received from former inmates that the jailer is unable to locate.

E. Deposits and Investments

The government's cash and cash equivalents are generally considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the General Obligation Bond Fund, Public Properties Corporation Debt Service Fund and the Jail Canteen Fund. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court: Tourism Commission and Regional Industrial Development.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Henderson County Fiscal Court:

Henderson City-County Planning Commission

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2010, the Fiscal Court paid the Planning Commission \$219,327.

Tri-County Recycling

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for Tri-County Recycling. Tri-County Recycling is a joint venture between the Fiscal Court, Union County, Webster County, and the City of Henderson to provide recycling opportunities for each county. Each participant on a pro-rata basis pays the costs associated with Tri-County Recycling. During the fiscal year 2010, the Fiscal Court paid Tri-County Recycling \$17,482.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Ventures (Continued)

West Kentucky Regional Industrial Authority

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court and Union, Webster and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

Henderson City-County Airport Board

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Airport Board. The Airport Board is a joint venture between Fiscal Court and City of Henderson to assist and promote the Henderson City-County Airport. The Fiscal Court contributed \$91,961 to the Airport Board during fiscal year 2010.

North KY Forward (Formerly EDC)

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for North KY Forward, which is a joint venture between Fiscal Court and City of Henderson to assist and promote the Henderson County. The Fiscal Court contributed \$83,333 to the Airport Board during fiscal year 2010.

Note 2. Deposits and Investments

A. Deposits

The primary government and its component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

As of June 30, 2010, the County had the following investments, which are included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$4,558,000

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

Credit Risk and Concentration of Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency; Commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency, thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investments policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificate of deposit is included in the custodial credit risk note disclosure for deposits.

Note 3. Receivables

Henderson County Fiscal Court loaned the Henderson County Water District \$50,400 on January 10, 1990, for the purpose of the Reed/Beals waterline expansion project. This loan is to be paid back over twenty-five years with an annual payment of \$2,016 with no interest added and with the final payment in May 2013. The balance of the receivable at June 30, 2010 was \$6,048.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 533,213	\$ 50,000	\$	\$ 583,213
Total Capital Assets Not Being Depreciated	533,213	50,000		583,213
Capital Assets, Being Depreciated:				
Buildings	21,131,219			21,131,219
Vehicles and Equipment	5,752,489	398,704	(75,446)	6,075,747
Infrastructure	4,156,750	759,632		4,916,382
Total Capital Assets Being Depreciated	31,040,458	1,158,336	(75,446)	32,123,348
Less Accumulated Depreciation For:				
Buildings	(3,088,258)	(331,128)		(3,419,386)
Vehicles and Equipment	(2,852,045)	(435,348)	70,571	(3,216,822)
Infrastructure	(1,139,798)	(327,759)		(1,467,557)
Total Accumulated Depreciation	(7,080,101)	(1,094,235)	70,571	(8,103,765)
Total Capital Assets, Being Depreciated, Net	23,960,357	64,101	(4,875)	24,019,583
Governmental Activities Capital Assets, Net	<u>\$ 24,493,570</u>	<u>\$ 114,101</u>	<u>\$ (4,875)</u>	<u>\$ 24,602,796</u>
<u>Business Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 65,690	\$	\$	\$ 65,690
Total Capital Assets Being Depreciated	65,690			65,690
Less Accumulated Depreciation For:				
Vehicles and Equipment	(29,527)	(6,577)		(36,104)
Total Accumulated Depreciation	(29,527)	(6,577)		(36,104)
Business Type Activities Capital Assets, Net	\$ 36,163	\$ (6,577)	\$ 0	\$ 29,586

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 113,024
Protection to Persons and Property	466,695
Roads, Including Depreciation of General Infrastructure Assets	<u>514,516</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,094,235</u>

Business Type Activities:

Jail Canteen	<u>\$ 6,577</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 6,577</u>

Note 5. Long-term Debt

A. Courts Facility

On December 1, 2006, the Henderson County Public Properties Corporation advance refunded the court facility revenue bonds, 2000 series, issued by Henderson County Public Properties Corporation. Payments due on and after December 1, 2006 were paid from the escrow account. The bonds were called on April 1, 2010. The bonds outstanding were paid in full from the escrow account during the fiscal year.

B. Detention Facility

The County of Henderson, Kentucky issued bonds dated August 1, 2003, for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing June 1, 2006 through June 1, 2016 (2) paying the costs associated with the expansion, renovation, improvement, and equipping of the Detention Facility located in Henderson, Kentucky. The issue amount of the bonds was \$7,080,000. Interest on the bonds will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2003. The bonds will mature on June 1 of each year thereafter. The principal balance as of June 30, 2010 was \$5,905,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 335,000	\$ 242,340
2012	350,000	229,778
2013	360,000	216,652
2014	370,000	203,153
2015	385,000	189,092
2016-2020	2,405,000	680,788
2021-2023	<u>1,700,000</u>	<u>149,457</u>
Totals	<u>\$ 5,905,000</u>	<u>\$ 1,911,260</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

C. Courts Facility

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Refunding Bonds (Court Facility Project), Series 2006 on December 1, 2006 for the purpose of paying the costs associated with the refunding and refinancing of the Series 2000 Bonds. The issue amount of the bonds was \$9,670,000. Interest on the bonds will be payable semi-annually on February 1 and August 1 of each year commencing February 1, 2007. The bonds will mature on February 1 of each year thereafter. The principal balance as of June 30, 2010 was \$8,575,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 405,000	\$ 322,269
2012	420,000	307,588
2013	430,000	292,362
2014	450,000	276,775
2015	460,000	260,463
2016-2020	2,595,000	1,035,588
2021-2025	3,115,000	507,044
2026	700,000	27,125
Totals	<u>\$ 8,575,000</u>	<u>\$ 3,029,214</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 6,225,000	\$	\$ 320,000	\$ 5,905,000	\$ 335,000
Revenue Bonds	8,965,000		390,000	8,575,000	405,000
Governmental Activities					
Long-term Liabilities	<u>\$ 15,190,000</u>	<u>\$ 0</u>	<u>\$ 710,000</u>	<u>\$14,480,000</u>	<u>\$ 740,000</u>

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 6. Commitments and Contingencies

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bond issues.

B. Ambulance Service Agreement

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2010, were \$343,996.

C. Recycling Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2010, were \$17,482.

D. West Kentucky Regional Industrial Development Authority-Kenergy Loan Guarantee

Henderson County in conjunction with Webster, Union, and McLean Counties issued an ordinance, which guarantees a portion of the \$450,000, zero-interest rural development loan made to Kenergy from the West Kentucky Regional Industrial Development Authority, to assist in promoting development of the 4Star Industrial Park. Henderson County authorized a guarantee of \$150,000. Webster County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

E. Henderson County Airport Project

Henderson County entered into a lease agreement for the Henderson City-County Airport. The Airport makes the payments and is in compliance with the payment schedule. The balance as of June 30, 2010 is \$294,427.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 7. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information illustrating the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On March 1997, the Henderson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information illustrating the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Self Insurance - Health

Henderson County Fiscal Court elected to begin a partially self-funded health insurance plan as of April 1, 1997. County employees are required to contribute 20% of the premium payments for their plan and the County pays the remaining 80% of the County employee's coverage. The County maintains only one insurance plan with various levels of coverage (i.e. single, family, etc.). The Riverport Authority employees also contribute to this fund. Henderson County contracted with North American Administrators to administer the employee benefit plan for the 2009-2010 fiscal year.

This partially self-funded insurance plan has two distinct components that the fiscal court must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan, and specific and aggregate reinsurance costs that cap the county's claims exposure on an individual and aggregate basis. Fixed costs for fiscal year ending June 30, 2010 were \$712,623. The second component is the claims cost, all of which Henderson County is responsible to pay as they incur. Once an individual exceeds \$35,000 in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursements from the reinsurance carrier. Claims for fiscal year ended June 30, 2010 were \$1,706,262 and stop loss reimbursements were \$467,609. Henderson County Fiscal Court's contract with North American Administrators has no terminal liability provision. The Court will be responsible to pay all run-out claims after termination. The Health Insurance Fund had a balance of \$95,028 as of June 30, 2010.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2010, Henderson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustments

A. Net Assets Beginning Balance For Governmental Activities

The prior year net asset ending balance for governmental activities has been restated for the following:

	<u>Governmental Activities</u>
Net Assets Ending Balance Prior Year	\$ 16,377,509
Plus:	
General Fund Prior Year Voided Checks	\$ 6,700
Road Fund Prior Year Voided Checks	162
Jail Fund Prior Year Voided Checks	1,851
Rounding Error	3
Accumulated Depreciation Erroneously Included In Prior Year	<u>38,966</u>
	<u>47,682</u>
Net Assets Beginning Balance - Restated	<u><u>\$ 16,425,191</u></u>

B. Beginning Fund Balances

The prior year ending fund balances have been restated for the following:

	<u>Governmental Funds</u>
Ending Fund Balance Prior Year	\$ 7,377,029
Plus:	
General Fund Prior Year Voided Checks	\$ 6,700
Road Fund Prior Year Voided Checks	162
Jail Fund Prior Year Voided Checks	1,851
Rounding Error	<u>3</u>
	<u>8,716</u>
	<u><u>\$ 7,385,745</u></u>

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HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

GENERAL FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,550,750	\$ 4,550,750	\$ 5,204,680	\$ 653,930
In Lieu Tax Payments	353,200	353,200	386,030	32,830
Excess Fees	85,000	85,000	99,808	14,808
Licenses and Permits	133,000	133,000	196,139	63,139
Intergovernmental Revenue	2,676,900	2,676,900	2,972,820	295,920
Charges for Services	2,016	2,016	2,016	
Miscellaneous	55,050	55,050	139,958	84,908
Interest	100,000	100,000	117,545	17,545
	<u>7,955,916</u>	<u>7,955,916</u>	<u>9,118,996</u>	<u>1,163,080</u>
Total Revenues				
EXPENDITURES				
General Government	6,171,032	6,129,660	5,617,515	512,145
Protection to Persons and Property	649,688	691,060	634,461	56,599
Capital Projects	640,000	640,000	601,750	38,250
Administration	546,356	546,356	494,737	51,619
	<u>8,007,076</u>	<u>8,007,076</u>	<u>7,348,463</u>	<u>658,613</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(51,160)</u>	<u>(51,160)</u>	<u>1,770,533</u>	<u>1,821,693</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			286,912	286,912
Transfers to Other Funds	<u>(2,230,000)</u>	<u>(2,230,000)</u>	<u>(2,126,500)</u>	<u>103,500</u>
Total Other Financing Sources (Uses)	<u>(2,230,000)</u>	<u>(2,230,000)</u>	<u>(1,839,588)</u>	<u>390,412</u>
Net Changes in Fund Balance	(2,281,160)	(2,281,160)	(69,055)	2,212,105
Fund Balance - Beginning	<u>2,281,160</u>	<u>2,281,160</u>	<u>5,018,565</u>	<u>2,737,405</u>
Fund Balance - Ending	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,949,510</u></u>	<u><u>\$ 4,949,510</u></u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,584,343	\$ 1,584,343	\$ 1,901,446	\$ 317,103
Charges for Services	10,000	10,000	15,871	5,871
Miscellaneous	34,500	34,500	84,047	49,547
Interest	3,000	3,000	1,300	(1,700)
Total Revenues	1,631,843	1,631,843	2,002,664	370,821
EXPENDITURES				
Roads	3,340,580	3,435,311	3,359,268	76,043
Administration	650,556	605,825	605,279	546
Total Expenditures	3,991,136	4,041,136	3,964,547	76,589
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(2,359,293)	(2,409,293)	(1,961,883)	447,410
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	2,350,000	2,350,000	2,700,000	350,000
Transfers to Other Funds			(650,000)	(650,000)
Total Other Financing Sources (Uses)	2,350,000	2,350,000	2,050,000	(300,000)
Net Changes in Fund Balance	(9,293)	(59,293)	88,117	147,410
Fund Balance - Beginning	9,293	9,293	76,355	67,062
Fund Balance - Ending	\$ 0	\$ (50,000)	\$ 164,472	\$ 214,472

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,973,653	\$ 4,973,653	\$ 5,131,571	\$ 157,918
Charges for Services	120,000	120,000	84,870	(35,130)
Miscellaneous	420,000	420,000	504,952	84,952
Interest	7,500	7,500	11,827	4,327
Total Revenues	5,521,153	5,521,153	5,733,220	212,067
EXPENDITURES				
Protection to Persons and Property	4,048,395	3,979,461	3,933,275	46,186
Debt Service	575,000	575,000		575,000
Administration	909,539	978,473	973,473	5,000
Total Expenditures	5,532,934	5,532,934	4,906,748	626,186
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(11,781)	(11,781)	826,472	838,253
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			300,000	300,000
Transfers to Other Funds			(773,940)	(773,940)
Total Other Financing Sources (Uses)			(473,940)	(473,940)
Net Changes in Fund Balance	(11,781)	(11,781)	352,532	364,313
Fund Balance - Beginning	11,781	11,781	1,239,348	1,227,567
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,591,880	\$ 1,591,880

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Licenses and Permits	\$ 120,000	\$ 120,000	\$ 105,233	\$ (14,767)
Intergovernmental Revenue	1,127,500	1,127,500	1,657,875	530,375
Miscellaneous	1,000	1,000	99	(901)
Interest	7,000	7,000	20,343	13,343
Total Revenues	<u>1,255,500</u>	<u>1,255,500</u>	<u>1,783,550</u>	<u>528,050</u>
EXPENDITURES				
General Government	361,800	348,710	95,790	252,920
Protection to Persons and Property	288,500	279,398	193,925	85,473
General Health and Sanitation	290,080	290,673	256,327	34,346
Social Services	249,735	268,408	182,269	86,139
Recreation and Culture	20,500	21,000	20,000	1,000
Roads	300,000	302,393	302,393	
Bus Services	32,500	32,500	32,500	
Capital Projects	20,000	19,500		19,500
Administration	1,000	1,533	1,533	
Total Expenditures	<u>1,564,115</u>	<u>1,564,115</u>	<u>1,084,737</u>	<u>479,378</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(308,615)</u>	<u>(308,615)</u>	<u>698,813</u>	<u>1,007,428</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			450,000	450,000
Transfers to Other Funds	<u>(150,000)</u>	<u>(150,000)</u>	<u>(700,000)</u>	<u>(550,000)</u>
Total Other Financing Sources (Uses)	<u>(150,000)</u>	<u>(150,000)</u>	<u>(250,000)</u>	<u>(100,000)</u>
Net Changes in Fund Balances	(458,615)	(458,615)	448,813	907,428
Fund Balances - Beginning	<u>458,615</u>	<u>458,615</u>	<u>949,321</u>	<u>490,706</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,398,134</u>	<u>\$ 1,398,134</u>

HENDERSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	State Grants Fund	Economic Development Fund	General Obligation Bond Fund	Public Properties Debt Service Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 8,473	\$ 1,414	\$	\$ 46	\$ 9,933
Total Assets	<u>8,473</u>	<u>1,414</u>	<u>0</u>	<u>46</u>	<u>9,933</u>
FUND BALANCES					
Unreserved:					
Debt Service Funds				46	46
Special Revenue Funds	<u>8,473</u>	<u>1,414</u>	<u></u>	<u></u>	<u>9,887</u>
Total Fund Balances	<u>\$ 8,473</u>	<u>\$ 1,414</u>	<u>\$ 0</u>	<u>\$ 46</u>	<u>\$ 9,933</u>

The accompanying notes are an integral part of this financial statement.

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HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	State Grants Fund	Economic Development Fund	General Obligation Bond Fund	Public Properties Debt Service Fund	Total Non-Major Governmental Funds
REVENUES					
Intergovernmental	\$ 333,389	\$ 789,542	\$	\$ 727,934	\$ 1,850,865
Miscellaneous	10,427				10,427
Interest		56		20	76
Total Revenues	343,816	789,598		727,954	1,861,368
EXPENDITURES					
General Government		789,539			789,539
Protection to Persons and Property	345,686				345,686
Debt Service			573,940	726,406	1,300,346
Administration		30,000		1,548	31,548
Total Expenditures	345,686	819,539	573,940	727,954	2,467,119
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(1,870)	(29,941)	(573,940)		(605,751)
Other Financing Sources (Uses)					
Transfers From Other Funds	11,500	15,000	573,940		600,440
Transfers to Other Funds	(1,500)			(85,412)	(86,912)
Total Other Financing Sources (Uses)	10,000	15,000	573,940	(85,412)	513,528
Net Change in Fund Balances	8,130	(14,941)		(85,412)	(92,223)
Fund Balances - Beginning (Restated)	343	16,355		85,458	102,156
Fund Balances - Ending	\$ 8,473	\$ 1,414	\$ 0	\$ 46	\$ 9,933

The accompanying notes are an integral part of this financial statement.

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HENDERSON COUNTY
COMBINING STATEMENT OF FIDUCIARY FUNDS NET ASSETS
- MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

HENDERSON COUNTY
COMBINING STATEMENT OF FIDUCIARY FUNDS
NET ASSETS- MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	<u>Jail Inmate Fund</u>	<u>Jail SOMS Escrow Fund</u>	<u>Jail Keefe Escrow Fund</u>	<u>Total Agency Funds</u>
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 99,918	\$ 11,040	\$ 4,888	\$ 115,846
Total Assets	<u>99,918</u>	<u>11,040</u>	<u>4,888</u>	<u>115,846</u>
Liabilities				
Amounts Held In Custody For Others	<u>99,918</u>	<u>11,040</u>	<u>4,888</u>	<u>115,846</u>
Total Liabilities	<u>99,918</u>	<u>11,040</u>	<u>4,888</u>	<u>115,846</u>
Net Assets				
Total Net Assets	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald H. McCormick, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, listed in the table of contents and have issued our report thereon dated April 14, 2011. Henderson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henderson County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Henderson County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01 and 2010-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-03.

Management's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses of the County Judge/Executive and the County Jailer, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 14, 2011

HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS

For the Year Ended June 30, 2010

**HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL – MATERIAL WEAKNESSES

2010-01 Internal Controls At The Jail Are Not Functioning Properly

During testing we noted several internal control deficiencies:

- a. Jail employees were placing personal checks into commissary deposits and withdrawing cash in the amount of the check.
- b. Receipts issued to inmates are not accounted for sequentially.
- c. Credit cards charges were not properly documented.
- d. Abandoned property was not properly remitted to the state.
- e. Jail employees were allowed to use jail credit cards to pay for travel costs instead of being reimbursed per diem as prescribed by policies adopted by the Fiscal Court.

All of the deficiencies listed above were in violation of county policies, but employees were allowed to circumvent internal controls. We recommend the Jailer require internal control policies be properly implemented and followed in order to eliminate the aforementioned deficiencies.

County Jailer Ron Herrington's Response: Internal control deficiencies have been addressed and corrected.

2010-02 Credit Card Expenditures Should Be Supported By Proper Documentation

While testing credit card expenditures, we noted that 25 of 122 credit card transactions were not supported by proper documentation. All credit card expenditures should be supported by proper documentation prior to payment and credit card statements should include itemized receipts to support all charges on the statement. We recommend Fiscal Court require that supporting documentation be obtained before approval is made to pay the claim.

County Judge/Executive Donald H. McCormick Response: Fiscal Court will require all receipts for credit card purchases to be turned into the treasurer's office prior to payment.

STATE LAWS AND REGULATIONS

2010-03 KRS 424.260 Bid Requirements Should Be Followed

During testing we noted purchases for sheriff's vehicles exceeding \$20,000 that were not properly bid. KRS 424.260 states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." If the county uses the state contract price, the county must maintain documentation of the contract price as well as use the state selected vendor. We recommend the requirements of KRS 424.260 be followed or proper documentation of the state contract be maintained.

County Judge/Executive Donald H. McCormick Response: Fiscal Court will obtain copies of state contract price for vehicles purchased without bidding.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

HENDERSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

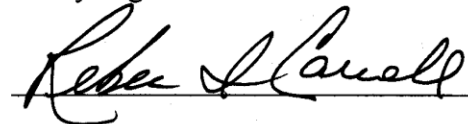
HENDERSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Henderson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Donald W. McComb", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Rebecca A. Canell", written over a horizontal line.

County Treasurer

